Ascend Wellness Holdings Inc.

Second Quarter 2023 Earnings Call

Event Date/Time: August 8, 2023 — 6:00 p.m. E.T.

Length: 39 minutes

CORPORATE PARTICIPANTS

Daniel Neville
Ascend Wellness Holdings Inc. — Chief Financial Officer

Abner Kurtin
Ascend Wellness Holdings Inc. — Executive Chairman and Founder

John Hartmann
Ascend Wellness Holdings Inc. — Chief Executive Officer

CONFERENCE CALL PARTICIPANTS

Neal Gilmer
Haywood Securities — Analyst

Frederico Gomes
ATB Capital — Analyst

Andrew Semple
Echelon Capital Markets — Analyst

Russell Stanley
Beacon — Analyst

PRESENTATION

Operator

Good evening and thank you for standing by. I will now turn the call over to Ascend Wellness Holdings' first speaker today, Dan Neville.

Daniel Neville — Chief Financial Officer, Ascend Wellness Holdings Inc.

Welcome to AWH's second quarter 2023 earnings call. The presentation that accompanies this call can be found on the Company's website, www.awholdings.com/investors.

Before we proceed, I would like to remind you that there are several risk factors and other cautionary statements contained in our SEC and SEDAR filings, including our annual report on Form 10-K for the year ended December 31, 2022. We will not review those risk factors and other cautionary statements on this call. However, we encourage you to read them carefully.

Various remarks on this call concerning expectations, predictions, plans, and prospects constitute forward-looking statements or information. These forward-looking statements or information are subject to risks and uncertainties that may cause actual results to differ from historical or anticipated results.

Any forward-looking statements or information reflect management's current view only. We undertake no obligation to revise or update such statements or make additional forward-looking statements in the future, except as required by applicable laws.

References may be made during this call to future-oriented financial information and financial outlooks, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as forward-looking statements or information. While we believe that such estimates have been prepared on a reasonable basis, reflecting best estimates and judgments, the actual financial results of the Company may vary from the amounts discussed herein, and such variation may be material.

During today's call, we will be referencing to non-GAAP measures such as adjusted gross profit, adjusted gross profit margin, adjusted EBITDA, and adjusted EBITDA margin, as defined and reconciled in our earnings materials in the appendix of the presentation. These non-GAAP measures, as defined by AWH, may not be comparable to measures with similar titles used by other companies.

Certain information that may be mentioned during this call, including industry information and estimates, is obtained from third-party sources, including public sources, and there can be no assurances as to the accuracy or completeness of such information. Although believed to be reliable, management has not independently verified any of the data from third-party sources.

On today's call, we have Abner Kurtin, Executive Chairman and Founder, John Hartmann, Chief Executive Officer, and Daniel Neville, Chief Financial Officer.

I'd now like to hand the conference over to your first speaker today, Abner Kurtin, Executive Chairman and Founder, starting on Slide 4.

Abner Kurtin — Executive Chairman and Founder, Ascend Wellness Holdings Inc.

Thanks. Good evening, everyone, and thank you for joining our second quarter 2023 earnings call.

Thanks to the hard work and dedication of the Ascend team, we continued to make meaningful progress in Q2. We had yet another record sales quarter, achieving $123 million net revenue, representing 8 percent sequential and 26 percent year-over-year growth. We saw growth among almost all aspects of our business.

Adjusted EBITDA was in line with expectations at $21.3 million, including our previously disclosed cultivation challenges in New Jersey. In a moment, John will update you on the improvements we are realizing in New Jersey.

Absent the impact of these challenges, our adjusted EBITDA would have been $26.5 million, illustrating our core EBITDA-generation capability of $106 million on an annualized run-rate basis.

I'm most excited to share that we generated $8 million in cash from operations and are approaching being free cash flow positive. This represents our second quarter in a row generating cash from operations. We remain confident in our ability to generate cash flow from operations for the full year 2023 and see the Company move into a strong free cash flow position for 2024.

These are both critical milestones for Ascend as we work towards becoming a self-financing company, and I am incredibly proud of the team for delivering these achievements. We are working to run the Company so that we never have to rely on raising an outside dollar to support our growth objectives.

We continue to see growth among all areas of our business with our retail outlet model leading the way. Based on the strength of the core business, we are increasingly comfortable with 2024 estimates nearing $600 million of revenue and $125 million adjusted EBITDA with our existing asset base, although we are still in early days.

John and Dan will provide more detail on the business segments momentarily.

Valuations for cannabis operators remain hindered, with custody issues and federal illegality of the industry restricting most institutional investors from entering the space. However, we see green shoots of optimism that could potentially knock down these hurdles in the future.

The possible catalysts for improving valuations that were mentioned in the last call are still relevant, starting with the potential for rescheduling of cannabis on the controlled substance list. While there is no definitive timeline on the conclusion of this review, the commentary out of the Department of Health and Human Services suggests that there's a possibility for the conclusion of this review by the end of the year.

Further, the reintroduced SAFE Banking Act continues to generate traction in the Senate. While we view a legislative path forward as a much longer-term possibility, we are pleased to see bipartisan sponsorship.

Further, we continue to garner support for a lawsuit that challenges the constitutionality of the enforcement of the Controlled Substance Act against state-regulated cannabis businesses, which would invalidate the authority of the government to collect taxes under Section 280E of the IRS tax code. If successful, it would end the impact of 280E and gain access to capital markets and the banking system.

By challenging illegality in the judicial system, we have a multiprong approach and pathways to a federal catalyst in each branch of the government. This is more shots on goal than the industry has had in the past and gives me optimism that one of these pathways will work eventually.

Lastly, we are cognizant of our low stock price and the impact to investors, and the bar for transactions is very high. We recently saw one of our peers testing the market and uplifting for the TSX. We continue to watch the benefits they experience and are prepared to be fast followers in pursuing a path to uplifting if they achieve increased access to capital.

I wanted to highlight our successful start of adult use in Maryland. We are pleased to be getting to sell to recreational customers at our four dispensaries in the state on July 1.

We now sell adult use in five of our seven states and are excited about the potential for the remaining two states, Ohio and Pennsylvania, to flip to adult use in the near term. We believe that Ohio received enough signatures to put recreational cannabis on the ballot this coming November, and the ballot will be certified shortly. We are closely monitoring this development and remain optimistic about its success at the polls.

Ascend is one of the strongest, most focused asset portfolios in the Midwest, Mid-Atlantic, and Northeast regions. We look forward to driving revenue growth and cash generation across these assets in the upcoming quarters.

With that, I am pleased to turn the call over to John Hartmann, our new Chief Executive Officer, to discuss his observations from his first 90 days as CEO and review the business in more detail. We brought on John to help us take the business to the next level. This development emphasizes our continued focus on operational improvements, and we will look to him to lead the Company to operational excellence.

John Hartmann — Chief Executive Officer, Ascend Wellness Holdings Inc.

Thank you, Abner, and thank you for your dedication in leading the Company over the past five years. I am pleased to join you all today as the new Chief Executive Officer, and I'm grateful and humbled for this opportunity to lead the organization.

I've said many times in the last few months, the team has a great deal to be proud of with what has been achieved since inception in 2018. As we transition from a founder-led team, it's an honour for me to work alongside such talented and dedicated professionals.

I come to Ascend with over 20 years of experience leading large, complex organizations. Prior to joining, I held leadership roles at several national and international retailers and wholesalers.

Common threads in past experiences are driving growth and profitability, improving customer experiences, and building high-performing teams. I look forward to leveraging those experiences to achieve similar outcomes at Ascend.

During my first quarter, I took a deep dive into the business. I spent over two months on the road travelling to each of our 31 dispensaries and 6 cultivation facilities across our entire network and met with hundreds of our dedicated employees. I got into the weeds to understand our processes and learn our business through the lens of our customers, our patients, our growers, budtenders, and corporate teams.

The experience was truly remarkable, laying a strong and meaningful foundation. I had the privilege of seeing our operations through the eyes of both our employees and valued customers. Working behind our registers gave me unique insights into the entire customer journey at the store level. Additionally, I had hands-on involvement in our cultivation facilities, crafting our products and learning our process.

However, the most rewarding aspect was the opportunity to engage directly with our customers and patients, gaining valuable insights into their needs and priorities. This vital experience allowed me to witness both numerous strengths and promising opportunities while also reviewing areas for improvement.

My initial observations highlighted the strength and dedication of our team at all organizational levels. Our associates not only exude passion for the plant, but also showcase impressive capabilities.

What is crystal clear to me is our presence in some of the nation’s best markets with a great set of assets, which places us in an excellent strategic position. The focus on limited licence in current or near-term adult-use states with an acute attention to site selection has contributed to our ability to generate the highest revenue per store within the industry.

As I consider my immediate near-term objectives, I recognize several opportunities for substantial improvements across the Company which, in turn, will drive significant enhancements and growth. From its inception, the Company has diligently prioritized turning assets into revenue growth. And as we drive into this next phase, our focus on growth remains important, while simultaneously placing a stronger emphasis on margins and cash flow.

A critical goal of mine is to position the Company with an unwavering focus on our customers and their experience. Throughout my career, I've encountered businesses that succeeded by building and maintaining this focus. I passionately believe that by more deeply engaging our associates and emphasizing a customer-first mindset, we can deliver remarkable returns to our valued investors.

In the coming weeks and months, I envision reengineering some of our approaches to further empower our 2,100 associates to prioritize our retail and nearly 350 wholesale customers.

Lastly, in the immediate term, I plan to complete and realign our executive leadership team to better support and serve our customers.

We recently established the crucial role of Chief Commercial Officer, which will be filled by David Gacom, who will transition from the COO role, once that role has been staffed. David brings tremendous experience spanning cannabis and CPG to this new role, which presents a pivotal opportunity for us to set ourselves apart.

The Chief Commercial Officer will be focused on vital aspects of our business, such as assortment curation, merchandising, demand planning and allocation, and pricing. Moreover, this role will holistically support both our retail and wholesale endeavours, and by streamlining these aspects of our business, we aim to deliver superior products to our customers and increase efficiency.

Concurrently, we are conducting an extensive search for a Chief of Operations, who will exclusively concentrate on optimizing cultivation, production, and the supply chain. While our current focus here is ongoing, this additional resource presents an opportunity for us to elevate the standards of how we produce our products, improve quality, and capture efficiencies across the board.

In addition, we have already concluded the search for a Chief of Stores and have appointed Rick Wilkins to this critical role. Rick comes to us most recently from Bed Bath & Beyond, where he was responsible for the western United States and 350 stores with $1.5 billion in revenue. Previously, he held store leadership roles with Target, Starbucks, and the Old Navy and Gap organizations. He's progressed through a highly successful career from individual store leadership to managing teams responsible for hundreds of stores.

While Rick has never worked directly for me in the past, I had the opportunity to observe his team and culture-building leadership style and have been incredibly impressed by the results he achieved.

Rick will oversee everything retail from construction to the seamless operations of our store network. These key functions will be complemented and supported by our incumbent Chief Financial Officer, Chief People Officer, and Chief Marketing Officer, ensuring a cohesive and effective leadership team. We will continue to refine and evolve the team, but these are the initial evolutionary changes made thus far.

With that in mind, let's proceed to Slide 7 to delve into the latest retail updates from the quarter.

Our retail business, which achieved record revenue, generating approximately $90 million, was strong across the board, making up 73 percent of our net revenue. Q2 represented our third quarter in a row with transactions above $1 million.

We continue to strive to have 50 percent of our retail revenues come from products that we produce. This represents a balance of maximizing production margins while still providing a diverse product offering to our customers. We ended this quarter with 48 percent of our retail revenues being self-sourced.

The team continues to deliver new offerings to meet our customers' needs and expand our market penetration. During the quarter, we launched several new products, including Simply Herb vapes and limited-edition Summer Red, White & Berry gummies. Both of these products have gained exceptional traction with our customers.

The outlet model also continues to resonate with our customers. The New Bedford store, which opened in the middle of Q1, has become one of our top-performing stores. Similarly, our Grand Rapids outlet, which opened at the end of Q1, provided upside in Michigan retail revenue. Importantly, Massachusetts and Michigan retail improved meaningfully, even absent full quarter benefits of these two new stores.

During Q2, we opened our first outlet store in Illinois, located in Tinley Park, providing customers with unbeatable everyday low prices. The growth in Chicago-area stores this quarter helped to substantially offset the impact in southern Illinois from Missouri adult use. Although there remains mild pressure on the southern Illinois stores, the business has stabilized. Further, we remain on track to open our tenth store in Illinois in Q4.

During the quarter, we closed on the acquisition of four dispensaries in Maryland. Our Maryland business embodies the very essence of what AWH excels at, a textbook example of executing a playbook.

We purchased a distressed set of assets within the sector, strategically entering a late-stage medical market, and then swiftly navigated the transaction process. Within months, we integrated, renovated, and reflagged these stores for adult use.

On July 1st, we commenced adult-use sales at all four of the dispensaries and, based on run rate performance, we expect the transaction to be highly accretive. I’m extremely proud of the team for getting these assets ready in time for the adult-use launch while continuing to focus on our medical patients in the state.

Let’s move on to Slide 8 to discuss the wholesale business.

In Q2, we saw sequential year-over-year revenue growth in both gross wholesale and third-party wholesale. Gross wholesale revenue grew 5 percent quarter on quarter and 45 percent year on year, to $61 million, while net wholesale revenue grew 5 percent quarter on quarter and 51 percent year on year, to $33 million.

This quarter, we saw meaningful total wholesale growth in every one of our markets except Illinois, which was down slightly. In Illinois, we are now supplying products to 29 of 30 newly opened social equity licences, with nearly 99 percent penetration in the market. As additional licences become operational, we will continue to work diligently to cultivate these relationships.

Another positive this quarter was a strength in Massachusetts wholesale business, despite the competitive environment. This quarter, we had strong growth in intercompany sales, and we were also able to increase production to service 14 percent new additional third-party customers.

Our quality and value brand Simply Herb continues to capture market share.

We also continued to deliver meaningful sales growth in New Jersey. We ended the quarter with sales to 40 third-party client accounts, representing 100 percent market penetration. We are pleased that we have been able to grow our wholesale book of business in New Jersey.

Separately, as reported last quarter, we began implementing corrective measures to address yield and quality challenges, which were considerably impacting our cost of production. This quarter was the first full quarter of these lower margins impacting New Jersey, and our modifications are working.

As we previously disclosed, we expect New Jersey cultivation margins will remain below the normal range into the third quarter, as the flow-through of these improvements take full effect. It is extremely positive that we continue to grow top-line business while addressing the operational opportunities.

With that, I will turn it over to Dan to discuss the financials in detail, beginning on Slide 10.

Daniel Neville

Thanks, John. Good evening, everyone.

Q2 was a solid revenue growth quarter for Ascend and a success in terms of cash generation. We generated $8 million of cash from operations, excluding the inflow related to the ERC (sic) credit, and remain on track to generate cash from operations for the full year, inclusive of tax accruals.

Total system revenue increased by 7 percent sequentially to $151 million, while net revenue, which excludes intercompany sales of wholesale products, increased 26.1 percent year over year and 7.7 percent, quarter over quarter, to $123 million. This sequential revenue growth was primarily driven by growth in both the retail and wholesale businesses.

Total retail revenue in the second quarter was $89.9 million, which represents a 9 percent increase compared to our prior quarter and was driven by the full quarter benefit of our New Bedford, Mass and our third Grand Rapids, Michigan dispensary, as well as the opening of our Tinley Park, Illinois dispensary and the acquisition of four dispensaries in Maryland.

Gross wholesale revenue was $61.2 million, a 5 percent sequential increase, and net wholesale revenue increased 5 percent sequentially to $33.1 million, driven by sales increases in New Jersey and Massachusetts.

Our margins were lower this quarter, largely driven by the temporary challenges getting our Franklin cultivation dialled in, combined with mix shift in retail revenue, as we recently added three outlet stores to the portfolio. We continue to expect margins to moderately improve in Q3, with a more significant improvement in Q4 as our issues in New Jersey enter the rear view.

Adjusted gross profit decreased 6 percent to $44.9 million, and adjusted gross profit margin decreased 516 basis points, from 41.7 percent to 36.5 percent.

Our Q2 adjusted EBITDA was $21.3 million, which represents a 2 percent increase year over year, but a 9 percent sequential decrease.

Our adjusted EBITDA margin for Q2 was 17.3 percent, which represents a 409 basis-point year-over-year decrease and a 308 basis-point sequential decrease. The declines were driven by the above impacts to gross margin, partially offset by continued workforce optimization and other cost actions.

Absent the temporary production challenges we are facing in New Jersey, our adjusted gross profit and adjusted EBITDA would have each been approximately $5 million higher during the quarter.

Let’s move on to discuss the balance sheet on Slide 11.

We ended the quarter with $68 million of cash and equivalents. We have $242 million of net debt and no near-term maturities.

We are focused on generating cash and achieving long-term self-sufficiency without relying on additional external funding. For the second quarter in a row, we generated positive cash from operations of $8 million, and we remain on track to generate positive cash from operations for the full year of 2023.

In Q2, we used approximately $19 million of cash in the quarter for investing, driven by payments for the acquisition of four dispensaries in Maryland, and investments in notes receivable related to a separate transaction, partially offset by proceeds from our sale leaseback of our PA cultivation facility.

Lastly, we generated $5 million of net cash proceeds from finances.

We are pleased to continue to have a strong liquidity position, enabling us to pursue a disciplined M&A and capital allocation strategy. In June, we raised $7 million in equity in a private placement with one of our largest debt holders, who is also a significant shareholder. We appreciate their continued support and their confidence in our acquisition strategy.

While we are reticent to issue equity at these valuations, we view the acquisition opportunities we are pursuing as accretive and deleveraging transactions. There are an increasing number of distressed assets for sale, as many public and private operators struggle to navigate the difficult capital markets environment. We are in pursuit of several of these opportunities and hope to share more information as we are able.

In conclusion, I am proud of the industry-leading growth of Ascend, and I'm confident in the team's capabilities to deliver our long-term objectives.

With that, we'd like to open it up to questions.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now conduct the question-and-answer session. If you have a question, please press *, followed by the number 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request. Please be reminded to only ask one question and a follow-up.

Your first question comes from the line of Neal Gilmer from Haywood Securities. Your line is now open.

Neal Gilmer — Haywood Securities

Yeah. Thanks very much. Good evening, everyone. Maybe just wanted to get a little bit more clarity on the gross margins and the impact to New Jersey. Your comment was still some impact in Q3 and a more notable improvement in Q4. Taking a look at it historically, before these issues, you're sort of in that mid-40 percent range. Is that where we can expect Q4 to sort of revert towards and carry on into 2024?

And I guess a subpart of this question is that once you've got New Jersey in the rearview mirror, are there other opportunities that you're looking at for gross margin improvement?

Daniel Neville

Thanks, Neal. Yeah. So the gross margin impact related to New Jersey was about 400 bips of the decline this quarter. There was another 100 bips related to mix shift with our opening of some of our outlet stores, which is dilutive to the overall margins but very accretive, based on the performance of the stores to the overall gross profit dollars.

So that can give you kind of a bogey for what we expect to see once we exit this issue in New Jersey as we enter Q4. I would say moving back to a mid-40s percent gross margin is probably not in our near-term projections, but something in the lower 40 percent range is eminently doable, and I think you'll see us move there as we move through the issues in New Jersey.

Neal Gilmer

Great. Thanks for that. So then maybe for my follow-up, since you touched on the outlets there, maybe if you could provide a little bit more perspective on your strategy there? Are you planning on opening more in other states? And how should we see that unfolding, going forward?

John Hartmann

Neal, thanks for the question. It's John. Look, I think that we've been very pleased with the early results from several of our new outlet stores, Massachusetts, Michigan, Illinois. And we're considering, thoughtfully considering where we will place additional outlets in the future. We're focused on intensely competitive markets and, where it makes sense, we will test and use that model.

Neal Gilmer

Great. Thanks for taking my questions.

Operator

Your next question comes from the line of Frederico Gomes from ATB Capital. Your line is now open.

Frederico Gomes — ATB Capital

Good evening and thank you for taking my questions. Just on Maryland, could you comment on your retail sales there? What are you seeing on pricing?

And also the availability of products? And are you still seeing sales increasing? Or you had like a first week bump, and then just sort of stabilized? Thank you.

John Hartmann

Yeah. We've been very—Fred, thanks for your question. We've been very pleased with the early days in Maryland. You had a couple parts of your question there. I'll take the product first. We've seen no issues with constraint of product. We've been able to offer a full menu to our customers.

Sales have been—sales started strongly and continue to grow, week over week, so we've been very pleased with where the sales currently are running at, in the 2 to 2.5 times the medical sales range.

Frederico Gomes

Yeah. Thanks for that colour. And then just on your cash flow from ops this quarter, I believe we don't have the breakdown yet, but how much of that is being impacted by working capital and, notably, taxes?

And then do you see any benefits from the 280E decoupling in Illinois and New Jersey? Thank you.

Daniel Neville

Yeah. Sure. So I'll take the decoupling first. New Jersey and Illinois are both states where we generate quite a bit of gross profit, and they're also relatively high tax jurisdictions. New Jersey has an 11.5 percent state tax rate, above certain income thresholds, and Illinois is at 9.5 percent.

So that was not really a benefit for us in the quarter. We actually paid estimates on the state side of things for Q1 and Q2 this quarter. But it'll be a positive driver of cash flow going forward, obviously not EBITDA, to the tune of $9 million to $10 million a year between the decoupling in both of those states.

In terms of cash flow from operations this quarter, it was a little bit messy with the ERC (sic) credit flowing through cash flow from operations but, ex that, we generated $8 million of cash flow from operations. That $8 million is inclusive of $7 million of tax payments that we made within the quarter, which would be additive to that $8 million number. And working capital was, as you'll see in the queue tomorrow—was a nice source for us of about $10 million in the quarter.

Frederico Gomes

Thank you very much for the colour. I'll hop back in the queue. Thanks.

Operator

Your next question comes from the line of Andrew Semple from Echelon Capital Markets. Your line is now open.

Andrew Semple — Echelon Capital Markets

Hi, there. Good evening and congrats on the Q2 results.

First question here is just on the outlet store concept, a concept that you've, I think, now pretty clearly demonstrated is working and working quite well. Have you seen an increase in interest from third-party suppliers in partnering it with you or moving product through your stores as you begin to roll out that model in more and more states?

And with the volumes that you guys are moving, are you receiving any improved pricing levels from third-party suppliers, given the higher volumes?

John Hartmann

Andrew, thanks for the question. Look, maybe Dan and I'll tag team on this one.

I think, from an outlet store perspective, we enjoy terrific relationships with a wide variety of third parties that help supply our stores and, in turn, we help supply their stores. So those relationships are important to us, and they continue to grow.

Daniel Neville

Yeah. And look, I'd say generally, the concept holds in cannabis the same as it holds in other retail and the rest of the world. You buy more stuff; you tend to get a bit better discount on the buys that you're making. The component to those buys is different by market.

If you look at our outlet model in Massachusetts or Illinois, for example, it's primarily sourcing our own product and relying a little bit less, although still providing a full assortment to our customers, of third-party products.

In a state like Pennsylvania, where we don't have a large-scale cultivation operation, and we don't plan to have one until we have line of sight to adult use, there is more partnering with third-party partners, both on the MSO side of things as well as independent and single-state operators. And as we've seen success in the state and the volumes continue to grow, we've been able to use our buying leverage to capture some nice pricing that we can pass on to our customers.

Andrew Semple

Great. That's helpful. And just a quick follow-up here would be going back to the impact expected for New Jersey in the back half of this year. I know you quantified that figure for the Q2 results. You were previously expecting an impact of around $7 million, if I've got that right. And it looked like that actually came out to $5 million, so a little less than expected. I'm wondering if you could maybe provide the same level of granularity for the back half of this year.

Daniel Neville

Yeah. So look, I think we're going to see a pretty similar impact in Q3 where we're, unfortunately, still not fully through the issues. As John said, we're getting better month on month in terms of the metrics that we're seeing on the front part of the curve. But we still have to work through the issues, and it takes a bit for that to flow through the financial statements.

So Q3 is going to be more of a transitional quarter as we work through the New Jersey issues. We do have the benefit of A-U sales in Maryland, and that'll certainly be a positive and an additive as we look to Q3. But net-net, it's going to be kind of a modest benefit in Q3, and we'll see the bulk of the benefit of New Jersey improving in Q4.

Andrew Semple

Understood and that's helpful. Thanks for taking my questions.

Operator

Your next question comes from the line of Russell Stanley from Beacon. Your line is now open.

Russell Stanley — Beacon

Hello and thanks for taking my questions. First, just to, I guess, beat a dead horse, perhaps, but on New Jersey and the modifications you've made, I just wanted to clarify. Do you believe you've taken all of the steps that you need to take in order to rectify or bring yields back—bring yields up to standard, and all we need to do now is wait for crops to cycle through? Or do you believe there are still modifications that need to be made, based on the early results? Just trying to understand if you've done everything you can to this point and whether now it's just a matter of patience.

John Hartmann

Russ, it's John. Thanks for your question. Look, I believe, and I've seen it with my own eyes, was one of the first facilities that I visited shortly after I joined in May. And the transition that the facility has made spanning the last two-and-a-half to three months has actually been quite remarkable. The change in the production and the change in the quality of the plants is obvious and visible. There's been just absolutely substantial improvement in each stage of the grow. And I think, importantly, there's a palatable change in the leadership in the building as some changes were made there.

So I have a very high level of confidence that we've clearly remediated the issues that we were facing in Q1, and that's measured also on a quantitative basis by the consecutive month-over-month improvement in grams per square foot that the facility's producing. So we feel like the remediation has been very effective and, now, we will garner the benefit of all the hard work the team has put in, over the coming months.

Russell Stanley

That's great colour. Thanks. And if I can move on to another question around the outlet store model. Given this is a model you've used, as you noted, in more competitive markets, I'm just wondering, have you evaluated—are you considering, at all, taking perhaps existing traditional model stores and perhaps relocating, reopening them as outlet store models, especially in markets that have become more competitive? Is that something you're considering at this point?

John Hartmann

Russ, again, thanks for the question. Look, as I said earlier, we're very pleased with the outlet model and its effectiveness where it's been fully deployed. We are taking a very thoughtful approach to this and have tested and will continue to test the model in new locations.

And I think that's probably as far into the detail we want to go on this call today, but we recognize the value of the model in the right place, in the right competitive environment, and we'll continue to test it and deploy it where it makes sense.

Russell Stanley

Thanks. That's great colour. I'll get back in the queue.

Operator

There are no further questions at this time. Please continue.

John Hartmann

Thank you, everybody, for joining the call and have a good evening. We'll see you soon.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.